

CHAPTER 5
SIMPLIFY THE SYSTEM OF FILING
IMPLEMENT RETURN-FREE SYSTEM

General Explanation

Chapter 5.01

Current Law

Individuals whose income exceeds specified levels are required to file income tax returns each year.

Reasons for Change

The requirement to file income tax returns imposes a paperwork burden on taxpayers. This burden should be reduced to the extent consistent with sound tax administration.

Proposal

As a supplement to other alternatives to the filing of proper income tax returns that are already under study by the Internal Revenue Service, the Internal Revenue Service would be given authority to implement a return-free tax system. Under such a system, individual taxpayers who meet requirements to be specified by the Internal Revenue Service would not be required to file income tax returns. Instead, the Internal Revenue Service would, at the election of each eligible taxpayer, compute the taxpayer's liability, based on withholding and information reports provided to the Internal Revenue Service currently. The taxpayer would be sent a report, which would set forth the taxpayer's tax liability, and the taxpayer would be free to challenge the Internal Revenue Service's calculation of tax.

Analysis

Institution of the return-free system, together with the increases in zero bracket amounts and the personal exemptions, would substantially reduce the number of returns that taxpayers need to file with the Internal Revenue Service each year. This, in turn, would eliminate burdensome recordkeeping required of taxpayers and costs incurred by them in preparing returns. If the return-free system were to be implemented, it would initially be limited to single wage earners with uncomplicated financial transactions, roughly 21 million taxpayers (17 million of which would otherwise file the simplified Form 1040EZ and 4 million of which would otherwise file the Form 1040A only because they had more than \$400 in interest income). After a pilot program and further study, the system could be extended to other individual taxpayers and, by the early 1990's, more than 50 percent of

all taxpayers could be covered by the return-free system. It is estimated that at this level of participation the return-free system would save taxpayers annually approximately 71 million hours in actual return preparation and \$1.6 billion in fees paid to professional tax preparers.